

In the National company Law Tribunal
Allahabad Bench

CP. No- 73/ALD/2017

(Under Section 14(1) of the Companies Act, 2013)

IN THE MATTER OF

HMA INFO SOLUTION LIMITED

(Public Limited Company having Registered
Office at 2/220 2ND Floor, Glory Plaza
Opp Sur Sadan, M.G Road
Agra, UP-282002)

Judgement/ Order delivered on 25.09.2017

Coram: Hon'ble Shri H.P Chaturvedi, Member (J)

For the petitioner: Shri Shahid Kazmi, Adv.

For the Respondent: -----

As per: Hon'ble H.P Chaturvedi, Member Judicial

Order

1. The Petitioner Company namely **M/s HMA INFO SOLUTION LIMITED (bearing CIN No- U72300UP2013PLC056262)** files the present petition under section 14(1) of Companies Act, 2013 read with NCLT Rule, 68 and other applicable provision seeking approval from this Tribunal for conversion of the Company from Public Limited to Private Limited pursuant to a Board Resolution Dated, **15th February ,2017** which has further been ratified through a special resolution by the EOGM of the petitioner company held on **23rd March, 2017**.

2. The brief fact raising to and the averment made in the petition are stated as under.

a. The Petitioner Company is a closely held and unlisted, Public Limited Company having its **Registered Office at 2/220, 2nd Floor,**



Glory Plaza Opp. Sur Sadan, M.G. road Agra Uttar Pradesh-282002.

- b. The Company was originally incorporated under Companies Act, 2013 at Registrar of Companies, Kanpur, Uttar Pradesh on **17th April, 2013** as a Limited Company with the name of **“HMA INFO SOLUTIONS LIMITED”**
- c. The Company is having an authorized share capital of Rs.5,00,00,00/- (Fifty Lakh Only) Divided into 5,00,000/-(Five Lakh Only) equity shares of Rs10/- each and paid up share capital of the Company is Rs.7,00,000/-(Seven Lac Only) divided into 70,000(Seventy Thousand only) Equity shares of Rs.10/- each.
- d. The main objects of the Company have been specified in Clause “A” of the Memorandum of Association of the Company which reads as under:
 - (i) To carry on the business of Software designing, development, customization, implementation, maintenance, testing and benchmarking, designing, developing and dealing in computer software and solutions, and to import, export, sell, purchase, distribute, host (in data centres or over the web) or otherwise deal in own and third party computer software packages, programs and solutions, and to provide internet/web based applications, services and solutions, provide or take up information technology related assignment on sub-contracting basis, offering services on-site/ offsite or through development centres using owned/hired or third party infrastructure and equipment, providing recruitment



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and HR related services, providing and taking personnel/ consultants/ human resources to/ from other organizations, providing solutions/packages /services through applications services provider mode via internet or otherwise, to undertake IT enabled services like call Centre Management, Medical and legal transcription, data processing, Back Office processing, Accounting, HR and payroll processing, Insurance claims processing, credit card processing, loans and letters of credit processing, cheque processing, data warehousing and database management, to carry on the business of manufacturing, dealing and maintenance of computer hardware, computer systems and assemble data processors, programme designs and to buy, sell or otherwise deal in such hardware and software packages and all types of tabulating machine, accounting machines, calculators, computerized telecommunication systems and networks, their components, spare parts, equipment's and devices and to carry on the business of establishing, running and managing institutions, school, and academics for imparting education in computer technology, offering equipment, solutions and services for Networking and network management, data centre management and in providing consultancy services in all above mentioned areas.



- (ii) To carry on all categories and aspects of business in Internet-related services such as telnet, usenet, medical

transcription, tele/video conferencing and file transfer protocol, Call Centres, Web sites, web hosting and programming, Internet Services, systems and connectivity with telephone network using telephone, satellites and transponders, Computer software, computer programming, computer peripherals.

- e. The company as being a closely held public company is having only **8 shareholders**. Further, clarify there are **NIL** secured and unsecured creditors. Hence, the company's management as well as all its shareholders felt that the company should become Private Limited Company in order to work smoothly and efficiently under the new Companies Act 2013, and to be more law complaint. Hence, by this petition/ application the company now proposed for its conversion from Public Limited to Private Limited Company.

3. For the aforesaid reasons the Petitioner Company made such prayer from this tribunal to grant permission to approve its Special Resolution on Proposed conversion of the Company from Public Limited to Private Limited Company and for grant of further permission to carry necessary amendments/changes in its Article of Association, in terms of **section 14** and other applicable provision of **the Companies Act, 2013** read with **Rule 33** of the **Companies Incorporation Rules, 2014** and **NCLT Rule, 2016**. The applicant Company has prayed for some other relief which this Tribunal may deem fit and proper.



4. The Petitioner Company has stated that its conversion from Public Limited to Private Limited shall not affect any secured creditors,

unsecured creditor loan, debts, liabilities, obligations or contracts incurred or enter into, by or on behalf of it before conversion and such Secured Loan, Unsecured Loan, debts, liabilities and contracts may be enforced in the manner as they were enjoying the status before the conversion.

5. The Petitioner Company through its Extra Ordinary General Meeting (conducted on **23rd March, 2017**), has sought for approval from its shareholders to convert the status of the Company from Public Limited to Private Limited. The Company's shareholders/ members unanimously in the above stated EOGM held on 23/03/2017 have given their consent for its conversion. All of them have voted in favour of the Special Resolution for its conversion from Public Limited into a Private Limited Company.
6. In this context, all the requisite documents are filed before the Registrar of Companies, Kanpur including **MGT-14 vide SRN NO-G39931084** on 03/04/2017. Mr. Wajid Ahmed and Mohammed Kamil Qureshi, being Directors of the Company have filed their Affidavits affirming the correctness of these documents.
7. It has been submitted before us that the petitioner company although is a Public Limited Company has not yet been listed in any Stock Exchange and nor registered as per section 8 of Companies Act, 2013 for charitable purposes. Therefore, the petitioner company has sought approval of its above sated resolution for alteration of the Articles of Association and Memorandum of Association, and to adopt new set of Articles of Association and Memorandum of Association of Company having effect of its conversion from a public limited



company into private limited as per section 14 (1) (b) of the Companies Act, 2013.

Therefore, on the above stated reason the Petitioner Company has sought for following relief in terms of its prayer clause which is stated under: -

(a) ***"To confirm the conversion of the Petitioner Company from "PUBLIC LIMITED" to "PRIVATE LIMITED" and the consequential alteration in the Article of Association of the Petitioner Company.***

8. We heard the submission of Learned Petitioner counsel Shri Shaïd Kazmi, informing such that there is no kind of objection received from public concern on the proposed resolution of conversion of the Company from Public Limited to Private Limited and, if it is approved, by this tribunal, it is not going to be detrimental to the interest of Public at large. Moreover, the management and shareholders would be more law complaint for the provisions of Companies Act. They would be able to work smoothly therefore; such Special Resolution deserve approval from this Tribunal.

In support of such contentions the Directors of the Company Shri Wazid Ahmed and Shri Mohammad Kamil Qureshi have filed their affidavits. The company in support of its prayer has annexed further the extract of special resolution dated **15th Febuary,2017** of its Board of Directors dully ratified and approved by the EOGM dated **23RD March,2017**. For seeking change in the name of company by substituting world Limited with Private Limited and adoption of the new set of



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articles of Association and Memorandum of Association of the Company.

9. We considered the relief sought for in the present petition in light of above stated legal position and factual aspect of the case as placed before us and made available in the record. The special resolution dated 23RD March, 2017, seeking approval from this tribunal reads as under: -

(a) "Resolved that pursuant to the provision of section 18 read with section 13 and section of the Companies Act, 2013, and other applicable provisions and relevant rules framed there under(including any statutory modification(s) or re-enactment thereof, for the time being in force) and the enabling provisions in the Memorandum of Association and articles of Association of the Company , and other applicable laws, rules and regulation and guidelines and subject to the approval of the Hon'ble National Company Law Tribunal , the consent of the members by way of special resolution at the general meeting be and is hereby accorded to convert the company from " PUBLIC LIMITED" TO "PRIVATE LIMITED" and consequently the name of company be changed from "HMA INFO SOLUTIONS LIMITED" to "HMA INFO SOLUTION PRIVATE LIMITED" by addition of the word "PRIVATE" before the word "LIMITED".



(b) "Further resolved that a new set of Article of Association as applicable to the private Company as placed before this meeting be approved and adopted as the new set of Article of Association of the Company".

10. A perusal of the relevant provision of the section 14(1) of the Companies Act, 2013 and read as under

(1) Subject to the provisions of this Act and the conditions contained in its memorandum, if any, a company may, by a special resolution, alter its articles including alterations having the effect of conversion of: -

(a) a private company into a public company; or

(b) a public company into a private company:

Provided that where a company being a private company alters its articles in such a manner that they no longer include the restrictions and limitations which are required to be included in the articles of a private company under this Act, the company shall, as from the date of such alteration, cease to be a private company:

Provided further that any alteration having the effect of conversion of a public company into a private company shall not take effect except with the approval of the Tribunal which shall make such order as it may deem fit.

Besides the above, the guiding principle for converting a Public Limited into Private Limited company are described well in Ramaiya's commentary on Companies Act, which may be reproduced here in below:



“In considering application for conversion, the guiding criterion is whether a proposal would be in best interests of the company itself and that there is a large measure of agreement among the shareholders to the proposed conversion. In particular, an attempt is made to ascertain if the proposal is prompted merely by a desire to

overcome the restriction imposed by some of the provision of the Companies Act, which apply only to public companies e.g., u/ss 295,372, etc., or if the conversion is generally needed for carrying on the business of the company more efficiently. A company having more than 25 shareholders is advised to obtain written consent of all the shareholders who had not voted for the conversion before Government's approval is considered. To protect the interest of unsecured creditors, the Department has also been insisting on companies obtaining the consent to conversion of every creditor to whom the company owes substantial amount."

In almost all the cases where a public company is converted into a private company, one of the motives which prompts such conversion is to avoid the restriction imposed on the public companies and enjoy the special privileges and exemption available to the private companies under the act. If the Central Government (as the authority for such approval under the 1956 Act) should refuse to accord its approval to conversion on this ground, it will be improper and legally challengeable.

After a public is converted into private company, it is important that a copy of special resolution authorising the conversion and altering the Articles so as to comply with S.40 of the 1956 Act (Now s.15 of the 2013 Act) should be included in every copy of the articles issued thereafter. The company must be in a position to give the certificate required by s.161(2) (b) of the 1956 Act (now s. 92 of the 2013 Act).

(A Ramaiya Guide to the Companies Act 18th Edition Volume – I p.604,605)

In addition to the above the Hon'ble High court of Kerala in its matter

Mathurabhumi Printing and Publishing Co. Ltd. Vardhaman



Publishers Ltd., (1992) has observed that the power is conferred on the company under Act to alter the article by special resolution, however such power shall not be abused by the majority of shareholders so as to oppress the minority.

The relevant portion of the judgement is reproduced here in below:

(a) It is too late in the day to contend that a company has no authority to alter the articles. A company has the power to alter its articles by special resolution passed at a general meeting. Such alterations will be valid provided they are not inconsistent with the provisions of the Companies Act and the memorandum of association (see para 4 to 7 of Gore-Broume on Companies, volume 1, 44th edition). A reference in this connection to Sections 31 and 38 of the Act also is profitable.

(b) With respect we agree with the view expressed by the Madras High Court. It is pertinent to note in this connection that counsel representing both the appellant and the transferees have very fairly conceded that the amended article has no retrospective operation. An incidental question, however, would arise immediately and it is this: Whether the altered article would interfere with the transfer of shares effected by the shareholder prior to the resolution amending the articles. We are of the view that the transferor remains subject to the altered article if it is shown that he continues to be a shareholder of the company. We are fortified in this view by the decision in Pepe's case [1893] 2 Ch 311, where after considering an amendment to the rule divesting a member of the society of his vested right to withdraw his shares, passed after the issue of the notice in writing expressing his desire to withdraw the shares, was held binding on the member



because at the time of altering the article he continued to be a member of the society. We shall in this connection reproduce relevant parts of the ruling in Pepe's case [1893] 2 Ch 311, 313.

"It has been settled by a series of authorities that a person in such a position is still a member of the society, and it follows that, under his contract with a society which has power to alter its rules, he remains subject to the rules when duly altered."

(c) The High Court of Australia, after reviewing the decisions in Pepe [1893] 2 Ch 311 and Sidebottom [1920] 1 Ch 154, have held in Peters' American Delicacy Company Ltd. v. Heath (61 CLR 457) thus:

"(i) Section 20 (corresponding to Section 31 of the Act) empowers-a company to alter its articles only subject to the conditions contained in the memorandum of association.

(ii) An alteration in a particular case may constitute a breach of contract with a shareholder, but such a breach of contract does not invalidate the resolution to alter the articles (see Allen's case [1900] 1 Ch 656 at p. 672).

(iii) The fact that an alteration prejudices or diminishes some of the rights of the shareholders is not in itself a ground for attacking the validity of an alteration (see Sidebottom [1920] 1 Ch 154, Shuttleworth

[1927] 2 KB 9 and Allen's [1900] 1 Ch 656 cases). Any other view would, in effect, make unalterable and permanent any articles of association which conferred rights upon a class of shareholders, or possibly upon any shareholder, if they or he desired that those rights should continue to exist unchanged. It is plainly not the law that the



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fact that an alteration of articles alters the rights or prejudices the rights of some shareholders is sufficient to prevent the alteration from being validly made.

(iv) The power to alter articles must be exercised bona fide. It is generally said that the power must be exercised bona fide for the benefit of the company as a whole, and all the recent authorities refer to the statement by Lindley M. R. in Allen's case [1900] 1 Ch 656. ... It must be exercised, not only in the manner required by law, but also bona fide for the benefit of the company as a whole, and it must not be exceeded.

(v) It is not for the court to impose upon a company the ideas of the court as to what is for the benefit of the company. It is for the shareholders to determine whether an alteration of the articles is or is not for the benefit of the company, subject to the proviso that the decision is not such as no reasonable man could have reached.

(vi) An alteration which is made bona fide and for the benefit of the company, if otherwise within the power, will be good, but it is not the case that it is necessary that shareholders should always have only the benefit of the company in view But though a shareholder may vote in his own interests the power of shareholders to alter articles is limited by the rule that the power must not be exercised fraudulently or for the purpose of oppressing a minority.

(vii) When the validity of a resolution of shareholders is challenged, the onus of showing that the power has not been properly exercised is on the party complaining. The court will not presume fraud or oppression or other abuse of power. ... It cannot be the law that a



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resolution of shareholders is to be presumed to be invalid until the defendants in an action positively establish that it is valid.

If, however, the resolution was passed fraudulently or oppressively or was so extravagant that no reasonable person could believe that it was for the benefit of the company, it should be held to be invalid."

(10) In the light of above referred Judicial Precedents and by considering the factual and legal aspect of the present case we find nothing contrary against the special resolution of the Petitioner Company for its conversion from Public Limited to Private Limited Company. Hence we are of the view that present petition deserves to be allowed hence it is allowed in terms of its prayer clause.

(11) Accordingly, the above stated resolution is hereby approved.

The Petitioner Company is directed to take follow up action in compliance of the Section 14(1) of Companies Act, 2013 read with other applicable provision of the Act.

Parties to act as per the Authentic Copy of this Order.

(12) No order as to cost.

(13) Accordingly, the present petition stands finally disposed of.



Date- 25/09/2017

Typed by:
Aman Kumar Dwivedi,
Law Clerk cum Research Assistant.

— Sd —

H.P Chaturvedi
Member (Judicial)